



MINUTES

Board Members Present: Councilmember Tim Burgess; Robert Harvey; David Stewart; Glen Lee; Lou Walter; Sherry Crawford; Jean Becker (via phone)

SCERS Staff Present: Cecelia M. Carter; Tony Smith; Ben Kalman Beverly Yapp; Lisa Carns

Others Present: Gavin Parr, Song Mondress Law Firm; Jeff Slayton, Seattle City Attorney's Office; John McCoy, Legislative Central Staff; Tom Kirn, Finance and Administration Services; George Emerson; Finance and Administration Services; Zone Montoya, Personnel Department; Steve Viney, Retiree; Jeff Davis, Planning and Development; Ulysses Hillard

Councilmember Burgess, Board Chair called the meeting to order at 9:30am.

Public Comment: No public comment.

Administrative Consent Agenda

Minutes:

Provided in the Retirement Board packet was the minutes from the October 11, 2012 Retirement Board regular meeting.

Ratification of Retired Payroll, Office Payroll, Other Payments and Withdrawals

Service	\$10,099,457.10
Beneficiary	\$903,713.93
Disability	\$76,598.73
Pension Payroll – PPE October 31, 2012	\$11,079,769.76
 Office Payroll – PPE October 5 and 19, 2012	 \$93,464.27
Vouchers Processed – October 31, 2012	\$696,312.70
*Expert and Consultant Services – \$4,797.40	
*Investment Management Fees – \$582,425.18	
*Interdepartmental Charges - \$63,092.60	
*Miscellaneous - \$45,997.50	

Immediate Withdrawals of Contributions for the month of October 2012:

Member	Department Name	Position
Benn, Debra M	Seattle Center	Sr. Event Serv Rep
Bougard, Michael	Parks	Laborer
Branum, Jack A	Parks	Laborer
Heilman, Pamela J	DoIT	Acct Tech II
Hiller, Ann M	Library	Libr Assoc II
Hoidal, Andrea M	Police	Admin Spec II
Kopitvo, Anna Marie	City Light	Sr. Env Analyst
Kuchera II, Ronald J	SPU	IT Prof C
Langhus, Theresa M	Police	ID Tech
Larkins, Joyce H	Muni Court	It Prof A
Low, Geoffrey M	Parks	Rec Attend
Mitchell, Daniel J	Library	Libr Assoc I
Mobley Jr, Johnnie	SDOT	Fin Anlyst
Runnels, Shaun E	City Light	Veg Mgmt
Smith, Kimberly A	Parks	Mtc Laborer

Bold entries above indicate refund payout made to beneficiary of a member dying while in active status.

Withdrawals for a total of: \$393,113.35

Ratification of Service Retirements for the month of October

Retiree	RetireDt	Years	Days	Age	DeptName	Position
Armstrong,James J	9/27/2012	31	106	59	Vested	Vested
Butler,Dennis F	9/18/2012	5	255	72	Vested	Vested
Chase,Lowell B	9/26/2012	30	24	60	Parks	Painter
Ciske,Sandra	10/5/2012	1	277	64	Vested	Portability
Clay,Iris	9/15/2012	24	171	54	City Light	Capital Proj Coord
Czeisler,Linda M	10/2/2012	9	197	65	Fire	Executive 2
Evans,Sandra L	10/10/2012	27	306	62	Municipal Courts	Court Clerk
Fevold,Constance L	10/2/2012	33	49	62	City Light	Pwr Anlyst,Sr
Gonzaga,Edgar F	10/4/2012	26	307	74	FAS	Admin Spec II-BU
Heitsch-Voorheis,Katherine	10/6/2012	21	306	59	Parks	Manager 2
Kessler,Ronald B	10/9/2012	13	347	65	Vested	Vested
Kurko,Keith W	9/13/2012	30	123	60	SPU	Manager 2
Lee,Merry	10/10/2012	32	338	60	SPU	Civil Engr Supv
Le-Huynh,J Hongnhan	10/10/2012	30	166	52	FAS	Info Tech Prof B -BU
Love,Cyrus D	10/2/2012	34	14	62	Parks	Plumber CC
Manaloto,Zenaida B	10/10/2012	25	24	65	DPD	Accountant Prin
Moritz,Joan	10/10/2012	16	88	66	Seattle Center	Manager I
Nelson,Kathryn L	10/10/2012	23	191	70	Human Services	Admin Suport Asst-BU
Pjerrou-Paynter,Patricia	10/3/2012	11	307	63	Library	Library Assoc II
Roetter,Freida L	9/15/2012	23	260	65	Library	Library Assoc III
Solomon,Judith E	10/3/2012	26	4	65	Library	Librarian
Tracy,Patsy L	9/25/2012	31	50	60	SPU	Util Acct Rep II
Vincent,Richard B	9/15/2012	22	89	63	FAS	Info Tech Prof B-BU
Weatherspoon,Sharon A	10/10/2012	30	95	55	SPU	Strat Advsr 1

For the month of October: 47 new Members entered the System, 42 terminations, 24 Members retired in the System, 23 Members removed (\$31,329.53), no Option B or C expirations, 5 Option D/E continuation, 4 Option F.

Motion: Upon motion by Lou Walter, seconded by Bob Harvey, the Retirement Board approved the below items contained in the Administrative Consent Agenda.

- Minutes of the October 11, 2012, Board Meeting
- Ratification of Retirement Payroll, Office Payroll, Other Payments and Withdrawals
- Ratification of Service Retirements for the month of October 2012

Investment Consent Agenda

The Investment Committee met on October 25, 2012 at 12pm at the Seattle City Employees' Retirement System Office, 720 Third Avenue, Suite 900 (Pacific Building). Committee members present: Bob Harvey, Glen Lee; David Stewart. Other Board members present: Jean Becker; Sherry Crawford. Staff Present: Cecelia Carter, SCERS Executive Director; Tony Smith; Ben Kalman; Lisa Carns; Jeff Slayton, Seattle City Attorney's Office; Others present: Neil Rue, PCA; David Sancewich, PCA; Mike Moy, PCA; George Emerson, FAS; John McCoy, Legislative Office.

Tony Smith and Ben Kalman with SCERS staff provided the Board with an overview of the October 25, 2012 Investment Committee meeting outlined below.

Non-US Equity Developed Markets Finalist Presentations

Tony Smith, SCERS Staff reported the Non-US Equity Developed Markets presentations were held on October 25, 2012. The managers that presented in alphabetical order were: Dimensional Fund Advisors, PIMCO, Pyramis and Research Affiliates. Mr. Smith gave a brief report on each presentation.

Dimensional Fund Advisors (DFA) has approximately \$245 billion in total assets under management as of March 31, 2012. DFA is 70% owned by current employees, with the remaining 30% held by individual investors that have close ties with the firm. DFA's investment philosophy is grounded in academic research that shows that small size and value style, as risk factors, can provide increased expected returns over long periods of time. DFA employs a structured, quantitative approach that is based on the efficient trade-off between risk and reward, and adds value through design, management, and trading.

PIMCO has approximately \$1.8 trillion in total assets under management as of March 31, 2012. PIMCO is a privately held, majority owned subsidiary of Allianz. PIMCO operates as a separate and autonomous subsidiary of Allianz. The strategy utilizes an unconstrained philosophy (i.e., they are not beholden to the benchmark when constructing the portfolio). Approximately 90% of the portfolio's holdings reside outside the benchmark. From the performance perspective, over the last five years, this has served them well. The volatility of the strategy has been about half of the benchmark over this same period. The firm's size provides advantages in the breadth and depth of its trading capabilities.

Pyramis has approximately \$180 billion in total assets under management as of March 31, 2012. Pyramis was established by Fidelity in 2005 as a wholly-owned subsidiary to focus on the unique investment needs of institutional clients. Fidelity shares are owned 51% by officers, senior employees of Fidelity and members of their families and 49% owned by the family of Edward Johnson II who founded the firm. The product employs a core strategy with a growth bias. The heart of the strategy is built upon independent, fundamental bottom-up stock research that identifies companies that are trading at a discount to long-term fair value (they seek companies with above-average earnings growth). Holding periods of stock is long-term and the objective is to provide long-term capital growth via a diversified portfolio of companies.

Research Affiliates (RAFI) has approximately \$5.2 billion in total assets under management as of March 31, 2012. Research Affiliates are owned by Research Affiliates Global Holdings, LLC, which is 95% owned by employees, retired employees, and family members of employees of Research Affiliates with the remaining 5% owned by a non-affiliated institutional owner. Their strategy is rooted in their Fundamental Index process where indices are constructed based on fundamental factors in lieu of traditional cap-weighted indices that are available in the marketplace. They believe that this allows them an increased chance of outperformance due to contrarian trading—buying low and selling high versus the opposite cap-weighted indices. The strategy is quantitative and rules-based, with no qualitative assessments. It is an enhanced index approach that seeks to outperform cap-weighted indexes by 200-400 bps over a full market cycle. The essence of their strategy is to exploit mean reversion—buying undervalued securities (based on fundamental factors) and selling overvalued ones.

Tony Smith, SCERS staff reported there was dialogue after the presentations regarding the 15% manager threshold policy that was implemented by the Investment Committee with Board approval. The Investment Committee requested to revisit the policy and report the reason the 15% manager concentration was set and how modifying the policy would impact the portfolio. Mr. Smith reported there will be follow-up at the November Investment Committee meeting.

PIMCO Release from Watch List

Tony Smith, SCERS staff reported due to recent performance results of the PIMCO active fixed-income portfolio, PCA recommended that SCERS remove this account from Watch status as of October 1, 2012. Over the watch period (7 months) ending 9/30/2012, PIMCO's performance improved; as of 9/30/2012, their 12-month rolling return of 10.2% outpaced the benchmark by 3.8%, and they also showed outperformance over the most recent quarter, YTD, and since inception periods.

Attucks Addition to Watch List

Tony Smith, SCERS staff reported due to recent performance results, PCA recommended that SCERS place Attucks on Watch status beginning October 1, 2012. Attucks breached SCERS' short-term Watch List criteria, underperforming the benchmark on a rolling 12-month basis by more than 3.0% per year for two consecutive calendar quarter ends. On a rolling 12-month basis, Attucks' returns have underperformed its benchmark during the second and third calendar quarters by 4.3% and 4.1%, respectively.

Private Equity Q2 2012 Performance Report

Tony Smith, SCERS staff reported that Mr. Mike Moy with PCA presented SCERS's Private Equity portfolio performance as of June 30, 2012. As of the report date, SCERS' Private Equity Portfolio had \$117.2 million in commitments across nine partnerships and five direct investments. It was reported that \$118 million in capital had been drawn down, \$80 million in distributions had been made, and the SCERS Private Equity Portfolio had a reported value of \$56.6 million. The reported value represents an approximate allocation of 3.1% of the Total Plan assets as of June 30, 2012, below SCERS' target allocation to private equity of 5%. As of 6/30/2012, the SCERS' Private Equity portfolio outperformed its benchmark, the Russell 3000 Index + 300bps, over the one-year, five-year, and since inception time periods by 12.7%, 2.6%, and 0.8%, respectively; it underperformed over the three-year period by 6.6%.

Cash Flow Analysis

Tony Smith, SCERS staff reported that Mike Moy from PCA will report to the Investment Committee in November 2012 with liquidity expectations and a pacing schedule for SCERS private equity portfolio.

Covered Calls Update and Recommendation

Tony Smith, SCERS staff reported that Neil Rue from PCA presented an updated memo on the Covered Calls discussion. Many practitioners in the industry view Covered Calls as an equity equivalent, PCA, Staff, and certain members of SCERS' Investment Advisory Committee agreed that Covered Calls should be viewed as a distinct component of the broader public equity market for reporting purposes. As a result, the portfolio reporting structure would change so that the location of Covered Calls will roll up into the U.S. Equity allocation of the portfolio. Correspondingly, the overall target and rebalancing range for U.S. Equity would change to account for the inclusion of Covered Calls.

Investment Summary Accounting Report

Ben Kalman, SCERS staff reported as of September 30, 2012, the SCERS total portfolio had a market value of \$1.9 billion. As of the report date, the mark-to-market funded ratio for the plan was 64.03%. The market values of the traditional asset classes moved in line with the financial markets for the month; approximately \$609 thousand in private-equity distributions were received. Staff reported the last payment from Attalus was received. The payment was transferred to the PIMCO Global Inflation Linked Securities account.

There were questions and discussion from the Board. The Chair asked if PCA was compensated for placing managers with SCERS accounts. Staff reported that they have asked PCA that same question and they have reported the answer is no. PCA serves as consultants only and have no other vested interest. The Board also asked if PCA is required to disclose such information. Staff reported PCA is required to disclose the information.

Motion: Upon motion by Tim Burgess, seconded by Lou Walter, the Retirement Board accepted the Investment Consent Agenda.

Executive Director Report:

RFP Audit Services – Update

Ms. Carter, SCERS Executive Director reported the adhoc RFP sub-committee for Audit Services met on October 31, 2012 to review and discuss the three RFP's received for the mandate. The sub-committee included Cecelia Carter, SCERS Executive Director, Sherry Crawford, SCERS Board, Lou Walter, SCERS Board, Glen Lee, SCERS Board, and Jean Becker, SCERS Board. The three RFP's reviewed listed in alphabetical order were Baker Tilly Virchow Krause, LLP, Clifton Larson Allen, and Moss Adams. After much discussion, it was agreed that Ms. Carter would check the references for Clifton Larson Allen due to their experience with public sector. Ms. Carter will report the findings to the Board at the December 13th meeting.

Ms. Carter gave an update on the 2012 COLA. A handout was provided to the Board for review. Ms. Carter reviewed the materials with the Board. Ms. Carter reported the Seattle CPI-W increase exceeded the annual 1.5% COLA for the most recent 12 month period of June 2011- June 2012. The Seattle area CPI-W increased by 2.67%. The result of the increase causes a 65% Floor COLA "true up" payment. The "true ups" are prorated and provided in a one-time lump sum payment. There were 496 retirees' affected by the Floor COLA. The total cost for the Floor COLA for 2012 is \$64,000. Ms. Carter reported it is forecasted that the 1.5% annual COLA is projected to be better than the 65% Floor COLA benefit for the coming year (June 2012 – June 2013) which means it's projected there should not be a 65% Floor COLA for 2013.

There was dialogue about the forecast. Mr. Lee requested follow-up discussion regarding the forecast projection.

Ms. Carter furthered the discussion reminding the Board that in 2009 and 2010 a 1.5% COLA was granted despite there being periods of little to no inflation. Discussion continued with comment from Mr. Walter that the Board reviewed at that time whether the COLA was required and it was concluded that it was required.

New Business

Dashboard Reporting – September 2012

Cecelia Carter, SCERS Executive Director and Tony Smith, SCERS staff presented the report to the Board. The Dashboards outlined the 3rd Quarter 2012 summary of Investment activity, data on membership changes for retirees and active members, retirement benefit summary, cash flow and performance measures. Sherry Crawford questioned how many employees indicated they would retire by December 2012 due to the furloughs in 2010. Staff reported approximately 300 employees indicated they would retire. Approximately 107 selected a repayment option due to not retiring by December 31, 2012. Approximately 50 have retired. Staff reported they have not received any notification from about 101 employees indicating their intent. Several communications have been sent to the employees.

Interim Financial Statements 3Q 2012

Cecelia Carter, SCERS Executive Director presented the 3Q 2012 Financial Statements to the Board. The statements include an overview of the Net Plan Assets, Administrative Expenses and Statement of Changes as of September 30, 2012.

Status of Benefit Enhancements:

Information: The **estimated** current funding level of the Retirement Fund is 64.03% as of September 2012 on a marked-to-market basis. The above amount is an estimate calculated each month by the Retirement Office staff. As provided by Ordinance 120685, changes to the Floor COLA will occur once the funding level has reached at least 100% and has been confirmed by the Board after commissioning an actuarial valuation.

Councilmember Burgess announced at 10:35am that the Board would go into executive session to discuss a personnel matter until 11am.

At 11am Jeff Slayton, Seattle Attorney's Office announced an extension to 11:30am.

The Board reconvened at 11:25am. There were no actions taken in Executive Session.

Adjournment:

Motion: Upon motion of Lou Walter the Retirement Board voted to adjourn the meeting at 11:25am.

David L. Stewart, Secretary